

ANNEX III: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR CIVIL AIRCRAFT

PART 1. NEW LARGE AIRCRAFT AND ENGINES FOR SUCH AIRCRAFT

CHAPTER I: SCOPE

1. Form and Scope of Application

Part 1 of the Sector Understanding, which complements the Arrangement, sets out the special guidelines which apply to officially supported export credits relating to the sale or lease of new large civil aircraft, listed in Appendix I, and the engines installed in such aircraft. The terms of Chapter 1 also apply to engines and spare parts when contemplated as part of the original aircraft order, subject to the provisions of Article 29 of Part 3 of this Sector Understanding. It does not apply to flight simulators, which are subject to the terms of the Arrangement.

2. Objective

The objective of this Part of the Sector Understanding is to establish a balanced equilibrium that on all markets:

- equalises competitive financial conditions between the Participants;
- neutralises finance among the Participants as a factor in the choice among competing aircraft; and
- avoids distortions of competition.

CHAPTER II: PROVISIONS FOR EXPORT CREDITS AND AID

3. Cash Payments

- a) The Participants shall require a minimum cash payment of 15 per cent of the total price of the aircraft, which includes the price of the airframe, any installed engines plus the spare engines and spare parts to the extent referred to in Article 29 of Part 3 of this Sector Understanding.
- b) Official support for such cash payments can only take the form of insurance and guarantees, i.e. pure cover, against the usual pre-credit risks.

4. Maximum Repayment Term

The maximum repayment term is 12 years.

5. Eligible Currencies

The currencies which are eligible for official financing support, as defined in the Introduction to the Arrangement, are US Dollars, German Marks, French Francs, UK Pounds, ECUs and Dutch Guilders.

6. Minimum Interest Rates

- a) The Participants providing official financing support, which shall not exceed 85 per cent of the total price of the aircraft referred to in sub paragraph a) of Article 3 above, shall apply minimum interest rates up to a maximum of 62.5 per cent of the total price of the aircraft as follows:
 - on repayment terms up to and including 10 years - TB10 + 120 basis points,
 - on repayment terms of over 10 to 12 years - TB10 + 175 basis points,
 - where TB10 means the 10 year government bond yield for the relevant currency (except the ECU) at the constant maturity averaged over the previous two calendar weeks. In the case of the ECU, TB10 means the long-term ECU bond yield as published by the Luxembourg Stock Exchange, long-term bond series, averaged over the previous two calendar weeks minus 20 basis points. For all currencies a margin as specified above shall be applied.
- b) The maximum percentage of the aircraft total price that may be financed at the fixed minimum interest rates specified in sub-paragraph a) above shall be limited to 62.5 per cent when repayment of the loan is spread over the entire life of the financing and 42.5 per cent when repayment of the loan is spread over the later maturities. The Participants are free to use either repayment approach, subject to the ceiling applicable to that pattern. A Participant offering such a tranche shall notify the other Participants of the amount, the interest rate, the date on which the interest rate is set, the validity period for the interest rate and the pattern of repayment. The Participants shall review the two ceilings at the time of each review in accordance with Article 17 to examine whether one ceiling provides more advantages than the other with a view to adjusting the more advantageous so that a balance is more evenly struck.
- c) Subject to the 85 per cent threshold specified in sub paragraph a) above,
 - 1) the Participants may additionally provide official financing support in a manner comparable with that provided by the Private Export Funding Corporation (PEFCO). Fortnightly information on PEFCO's borrowing costs and applicable lending rates, exclusive of official guarantee fees, on fixed rate finance for immediate disbursements over a series of dates, for contract offers and for bid offers, shall be communicated to the other Participants on a regular basis. A Participant offering such a tranche shall notify the other Participants of the amount, the interest rate, the date on which the interest rate is set, the validity period for the interest rate and the pattern of repayments. Any Participant matching such financing offered by another Participant shall match it in all of its terms and conditions other than the validity period of offers of commitment as set out in Article 8 below.
 - 2) these rates as notified shall be applied by all Participants as long as the 24 month disbursement interest rate does not exceed 225 basis points above TB10. In the event that the 24 month rate exceeds 225 basis points, the Participants are free to apply the rate of 225

basis points for the 24 months disbursement and all the corresponding rates and shall consult immediately with a view to finding a permanent solution.

- d) The minimum interest rates are inclusive of credit insurance premium and guarantee fees. However, commitment and management fees are not included in the interest rate.

7. Interest Rate Adjustments

The minimum interest rates set out in Article 6 above shall be reviewed every two weeks. If the average of the government bond yield for the relevant currency at constant maturity, or the long term ECU bond yield, differs by 10 basis points or more at the end of any two week period, such minimum interest rates will be adjusted by the same basis points difference noted above and the recalculated rate rounded to the nearest five basis points.

8. Validity Period for Export Credits/Interest Rate Offers

The duration of minimum interest rate offers set in accordance with Article 6 shall not exceed three months.

9. Determination of Interest Rate Offers and Selection of Interest Rates

- a) The Participants may provide official financing support in accordance with Articles 6 and 7 above at an interest rate applying on the date an interest rate offer is made for the relevant aircraft, provided that the offer is accepted within its validity period in accordance with Article 8. If the interest rate offer is not so accepted, further interest rate offers may be made up to, but no later than, the date of delivery of the relevant aircraft.
- b) An interest rate offer may be accepted and the interest rate selected at any time between contract signature and the date of delivery of the relevant aircraft. The rate selected by the borrower shall be irrevocable.

10. Pure Cover Support

The Participants may provide official support by way of guarantee or insurance only, i. e. pure cover, subject to the 85 per cent threshold specified in Article 6 a) above. Any Participant providing such support shall notify other Participants of the amount, term, currency and pattern of repayments and interest rates.

11. Competition Reference Point

In the event of officially supported competition, aircraft that are in the list of large civil aircraft in Appendix 1 to this Sector Understanding and that compete with other aircraft may benefit from the same credit terms and conditions.

12. Security for the Repayment Risk

The Participants may decide upon the security which they deem acceptable to secure the repayment risk without reference to other Participants. However, they agree to provide details of such security if requested by other Participants, or when deemed appropriate.

13. Model Changes

The Participants agree that when a fixed interest rate offer has been made or has been concluded on one type of aircraft, the terms contained therein cannot be transferred to another type bearing a different model designation.

14. Leases

The Participants may, subject to the other terms of Part 1 of the Sector Understanding, provide support for a financial lease on the same basis as a contract of sale.

15. Aid

The Participants shall not provide aid support, unless this is in the form of an untied grant. However, Participants shall consider sympathetically any requests for a common line for tied aid for humanitarian purposes.

CHAPTER III: PROCEDURES

16. Prior Notification, Matching and Information Exchange

The procedures for prior notification, matching and information exchange set out in the Arrangement shall apply to this Part of the Sector Understanding. Furthermore, the Participants may request a consultation if there is any reason to believe that another Participant is offering an officially supported credit on terms and conditions that do not conform to the Sector Understanding. The consultation shall be held within 10 days, but otherwise follow the procedures set out in Article 69 of the Arrangement.

17. Review

The Participants shall review the procedures and provisions of this Sector Understanding annually to bring them closer to market conditions. However, if market conditions or customary financing practices change considerably, a review may be requested at any time.

PART 2: ALL NEW AIRCRAFT EXCEPT LARGE AIRCRAFT

CHAPTER IV: SCOPE

18. Form and Scope of Application

Part 2 of the Sector Understanding, which complements the Arrangement, sets out the special guidelines which apply to officially supported export credits for the sale or lease of new aircraft not covered by Part 1 of this Sector Understanding. It does not apply to hovercraft nor to flight simulators which are subject to the terms of the Arrangement.

19. Best Endeavours

The provisions of this Chapter represent the most generous terms that Participants may offer when providing official support. The Participants shall, however, continue to respect customary market terms for different types of aircraft and shall do everything in their power to prevent these terms from being eroded.

20. Categories of Aircraft

The Participants have agreed on the following categorisation of aircraft:

- Category A: turbine powered aircraft, including helicopters, (e.g. turbo jet, turbo prop and turbo fan aircraft) with generally between 30 to 70 seats.
- Category B: other turbine powered aircraft, including helicopters.
- Category C: other aircraft, including helicopters.

An illustrative list of aircraft in categories A and B is set out in Appendix I.

CHAPTER V: PROVISIONS FOR EXPORT CREDITS AND AID

21. Maximum Repayment Term

The maximum repayment term varies according to the aircraft categorisation which shall be determined by the criteria set out in Article 20 above.

- a) For category A aircraft the maximum repayment term is ten years.
- b) For category B aircraft the maximum repayment term is seven years.
- c) For category C aircraft the maximum repayment term is five years.

22. Minimum Interest Rates

The Participants providing official financing support shall apply minimum interest rates; the Participants shall apply the relevant CIRR set out in Article 15 of the Arrangement.

23. Insurance Premium and Guarantee Fees

The Participants shall not waive in part or in total, insurance premium or guarantee fees.

24. Aid

The Participants shall not provide aid support, unless this is in the form of an untied grant. However, Participants shall consider sympathetically any requests for a common line for tied aid for humanitarian purposes.

CHAPTER VI: PROCEDURES

25. Prior Notification, Matching and Information Exchange

In the event of officially supported competition for a sale or lease, aircraft competing with those from another category or with those covered by other Parts of the Sector Understanding shall, for that specific sale or lease, be able to benefit from the same terms and conditions as those other aircraft. The procedures for prior notification, matching and information exchange set out in the Arrangement shall apply to this Part of the Sector Understanding. Furthermore, the Participants may request a consultation if there is any reason to believe that another Participant is offering an officially supported credit on terms that do not conform to the Sector Understanding. The consultation shall be held within 10 days, but otherwise follow the procedures set out in Article 69 of the Arrangement.

26. Review

The Participants shall review the procedures and provisions of this Sector Understanding annually in order to bring them closer to market conditions. However, if market conditions or customary financing practices change considerably, a review may be requested at any time.

PART 3: USED AIRCRAFT, SPARE ENGINES, SPARE PARTS, MAINTENANCE AND SERVICE CONTRACTS

CHAPTER VII: SCOPE

27. Form and Scope of Application

Part 3 of the Sector Understanding, which complements the Arrangement, sets out the special guidelines which apply to officially supported export credits relating to the sale or lease of used aircraft; and of spare engines, spare parts, maintenance and service contracts in conjunction with both new and used aircraft. It does not apply to hovercraft nor to flight simulators, which are subject to the terms of the Arrangement. The relevant provisions of Parts 1 and 2 of the Sector Understanding apply except as follows.

28. Used Aircraft

The Participants shall not support credit terms more favourable than those set out in the Sector Understanding for new aircraft. The following rules apply specifically to used aircraft.

a)

	Age of aircraft (years)	Normal Maximum Repayment Term		
	<i>Large Aircraft</i>	<i>Category A</i>	<i>Category B</i>	<i>Category C</i>
1	10	8	6	5
2	9	7	6	5
3	8	6	5	4
4	7	6	5	4
5 - 10	6	6	5	4
Over 10	5	5	4	3

These terms shall be reviewed if the maximum repayment terms for new aircraft are changed.

- b) The Participants providing official financing support shall apply minimum interest rates; the Participants shall apply the relevant CIRR set out in Article 15 of the Arrangement.

29. Spare Engines and Spare Parts

- a) The financing of these items when contemplated as part of the original aircraft order may be on the same terms as for the aircraft. However, in such cases the Participants shall also take account

of the size of the fleet of each aircraft type, including aircraft being acquired, aircraft already the subject of a firm order or already owned, on the following basis:

- for the first five aircraft of the type in the fleet: 15 per cent of the aircraft price, i.e. the price of the airframe and installed engines.
 - for the sixth and subsequent aircraft of that type in the fleet: 10 per cent of the aircraft price, i.e. the price of the airframe and installed engines.
- b) When these items are not ordered with the aircraft, the maximum repayment terms shall be five years for new spare engines and two years for other spare parts.
- c) Notwithstanding sub paragraph b) above for new spare engines for large aircraft, the Participants may exceed the maximum repayment term of five years by up to three years
- where the transaction has a minimum contract value of more than US \$20 million;
 - or includes a minimum of four new spare engines.

The contract value shall be reviewed every two years and adjusted for price escalation accordingly.

- d) The Participants reserve the right to change their practice and match the practices of competing Participants in relation to the timing of the first repayment of principal with respect to spare engines and spare parts.

30. Maintenance and Service Contracts

Participants may offer official financing support with a repayment term of up to two years for maintenance and service contracts.

CHAPTER VIII: PROCEDURES

31. Prior Notification, Matching and Information Exchange

The procedures for prior notification, matching and information exchange set out in the Arrangement shall apply to this Part of the Sector Understanding. Furthermore, the Participants may request a consultation if there is any reason to believe that another Participant is offering an officially supported credit on terms that do not conform to the Sector Understanding. The consultation shall be held within 10 days, but otherwise follow the procedures set out in Article 69 of the Arrangement.

32. Review

The Participants shall review the procedures and provisions of this Sector Understanding annually in order to bring them closer to market conditions. However, if market conditions or customary financing practices change considerably, a review may be requested at any time.

APPENDIX I ILLUSTRATIVE LIST

All other similar aircraft that may be introduced in the future shall be covered by this Sector Understanding and shall be added to the appropriate list in due course. These lists are not exhaustive and serve only to indicate the type of aircraft to be included in the different categories where doubts could arise.

LARGE CIVIL AIRCRAFT

Manufacturer	Designation
Airbus	A 300
Airbus	A 310
Airbus	A 319
Airbus	A 320
Airbus	A 321
Airbus	A 330
Airbus	A 340
Boeing	B 737
Boeing	B 747
Boeing	B 757
Boeing	B 767
Boeing	B 777
Boeing	707, 727
British Aerospace	RJ70
British Aerospace	RJ85
British Aerospace	RJ100
British Aerospace	RJ115
British Aerospace	Bae146
Fokker	F 70
Fokker	F 100
Lockheed	L-100
McDonnell Douglas	MD-80 series
McDonnell Douglas	MD-90 series
McDonnell Douglas	MD-11
McDonnell Douglas	DC-10
McDonnell Douglas	DC-9
Lockheed	L-1011
Ramaero	1.11-495

CATEGORY A AIRCRAFT

Turbine-powered aircraft - including helicopters - (e.g. turbo jet, turbo-prop and turbo-fan aircraft), with generally between 30 and 70 seats. In case a new large turbine-powered aircraft with over 70 seats is being developed, immediate consultations shall be held upon request with a view to agree on the classification of such an aircraft in this Category or in Part 1 of this Understanding in view of the competitive situation.

Manufacturer	Designation
Aeritalia	G 222
Aeritalia/Aerospatiale	ATR 42
Aeritalia/Aerospatiale	ATR 72
Aerospatiale/MBB	C160 Transall
De Havilland	Dash 8
De Havilland	Dash 8 - 100
De Havilland	Dash 8 - 200
De Havilland	Dash 8 - 300
Boeing Vertol	234 Chinook
Broman (U.S.)	BR 2000
British Aerospace	BAe ATP
British Aerospace	BAe 748
British Aerospace	BAe Jetstream 41
British Aerospace	BAe Jetstream 61
Canadair	CL 215T
Canadair	CL 415
Canadair	RJ
Casa	CN235
Dornier	DO 328
EH Industries	EH-101
Embraer	EMB 120 Brasilia
Embraer	EMB 145
Fokker	F 50
Fokker	F 27
Fokker	F 28
Gulfstream America	Gulfstream I-4
LET	610
Saab	SF 340
Saab	2000
Short	SD 3-30
Short	SD 3-60
Short	Sherpa
etc.	

CATEGORY B AIRCRAFT

Other turbine-powered aircraft, including helicopters.

Aerospatiale	AS 332
Agusta	A 109, A 119
Beech	1900
Beech	Super King Air 300
Beech	Starship 1
Bell Helicopter	206B
Bell Helicopter	206L
Bell Helicopter	212
Bell Helicopter	230
Bell Helicopter	412
Bell Helicopter	430
Bell Helicopter	214
Bombardier / Canadair	Global Express
British Aerospace	BAe Jetstream 31
British Aerospace	BAe 125
British Aerospace	BAe 1000
British Aerospace	BAe Jetstream Super 31
Beech Aircraft Corpn d/b/a Raytheon Aircraft Co.	Hawker 1000
Beech Aircraft Corpn d/b/a Raytheon Aircraft Co.	Hawker 800
Beech Aircraft Corpn d/b/a Raytheon Aircraft Co.	King Air 350
Beech Aircraft Corpn d/b/a Raytheon Aircraft Co.	Beechjet 400 series
Beech Aircraft Corpn d/b/a Raytheon Aircraft Co.	Starship 2000A
Bell	B 407
Canadair	Challenger 601-3A
Canadair	Challenger 601-3R
Canadair	Challenger 604
Casa	C 212-200
Casa	C 212-300
Cessna	Citation
Cessna	441 Conquest III and Caravan 208 series
Claudius Dornier	CD2
Dassault Breguet	Falcon
Dornier	D0 228-200
Embraer	EMB 110 P2
Embraer/FAMA	CBA 123
Eurocopter	AS 350, AS 355, EC 120, AS 365, EC 135
Eurocopter	B0105LS
Fairchild	Merlin/300
Fairchild	Metro 25
Fairchild	Metro III V
Fairchild	Metro III